American Stores Company Annual Report -- 1977
America's Corporate Foundation; 1977; ProQuest Historical Annual Reports
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AMERICAN STORES COMPA

Annual Report 19

Year ended April 2



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AMERICAN STORES COMPANY a holding company whose subsidiaries operate food markets, drug stores, restaurants and general merchandise stores serving an area containing approximately one-fourth of the population of the United States with:

ACME MARKETS, INC.

. . 466 food stores in Delaware, Maryland, New Jersey, New York, Pennsylvania, Virginia and West Virginia

ALPHA BETA COMPANY

. 294 food stores in California and Arizona
. 11 drug stores in California
. 33 family restaurants in California
. 4 general merchandise stores in California

REA AND DERICK, INCORPORATED

. 115 drug stores in Pennsylvania and New York

HARDEE NORTHERN INC.

12 fast food restaurants in Pennsylvania, New Jersey and Delaware

The annual meeting of shareholders will be held at the Hotel du Pont, 11th and Market Streets, Wilmington, Delaware on July 28, 1977 at 2 p m

COVER—Portrayed on the cover are some of the products and services available in the Company's retail units. The addition of specialty departments has given customers added selections as the retail store moves closer to the one-stop shopping concept

Freshness, quality, value, variety and convenience are all important elements of satisfying the customer Teamwork, service and courtesy on the part of all American Stores people are vital to attaining this all important goal

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FINANCIAL HIGHLIGHTS

Fiscal years ended April 2, 1977 and April 3, 1976

	1977 (52 weeks)	1976 (53 weeks)	Change
Sales	**$3,464,655,000**	$3,207,248,000	+ 8.0%
Net Earnings	**$ 25,819,000**	$ 31,965,000	−19.2%
Dividends Paid	**$ 9,989,000**	$ 8,373,000	+19.3%
Per Common Share			
Net Earnings	**$4.91**	$6.11	−$1.20
Dividends	**$1.90**	$1.60	+$.30

COMMON STOCK PRICE RANGE

Calendar Quarter	High	Low
2nd 1975	26¼	21½
3rd 1975	29¾	26
4th 1975	30⅝	25⅞
1st 1976	31½	26½
2nd 1976	31¼	26⅝
3rd 1976	33	27¾
4th 1976	32½	26¼
1st 1977	34¾	30½

CASH DIVIDENDS

Calendar Quarter	Amount Paid On Common Shares
3rd 1975	.40
4th 1975	.40
1st 1976	.40
2nd 1976	.40
3rd 1976	.47½
4th 1976	.47½
1st 1977	.47½
2nd 1977	.47½

A copy of the Company's 1977 report to the Securities and Exchange Commission, Form 10-K, is available to shareholders on request by writing: John W Edstrom, Secretary, American Stores Company, One Rollins Plaza, Wilmington, Delaware 19803.

EXECUTIVE OFFICES

One Rollins Plaza
Wilmington, Delaware 19803

STOCK EXCHANGES

New York Stock Exchange
Philadelphia Stock Exchange
Trading symbol: ASC

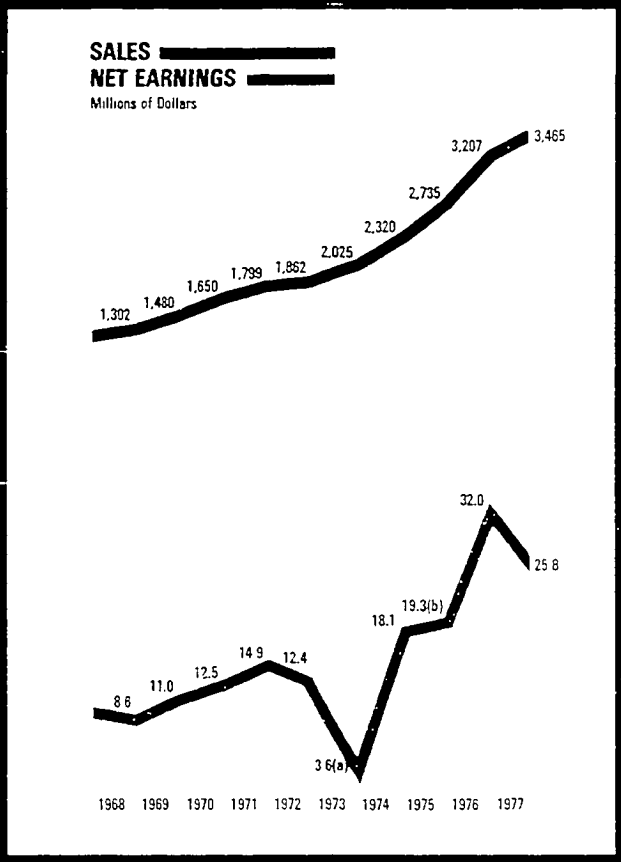
TRANSFER AGENT AND REGISTRAR

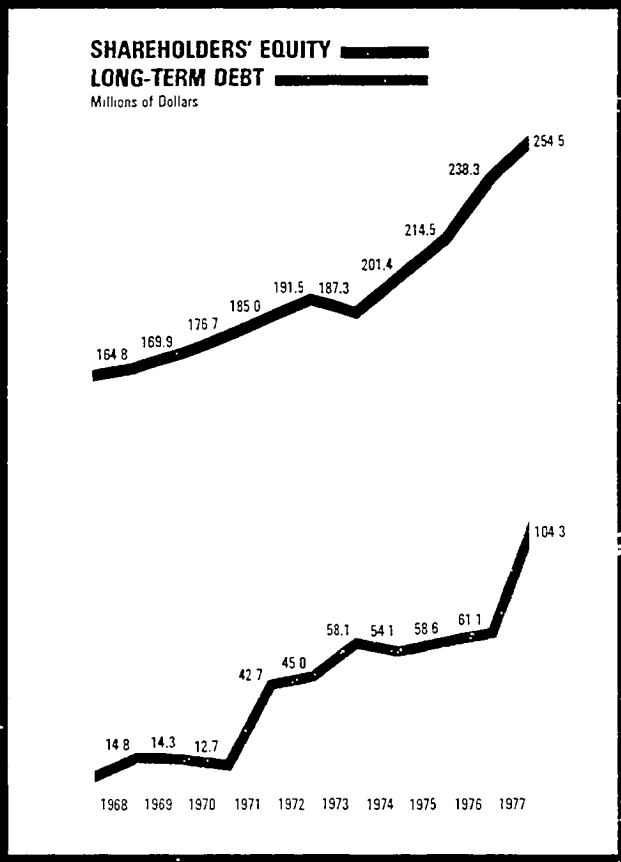
Girard Trust Bank
Four Girard Plaza
Philadelphia, Pennsylvania 19101

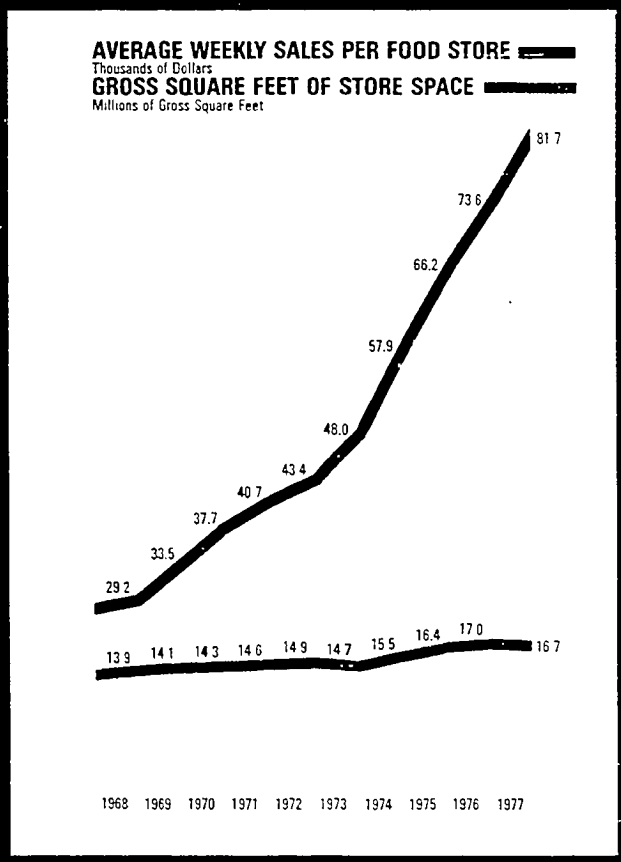
SHAREHOLDER COMMUNICATIONS

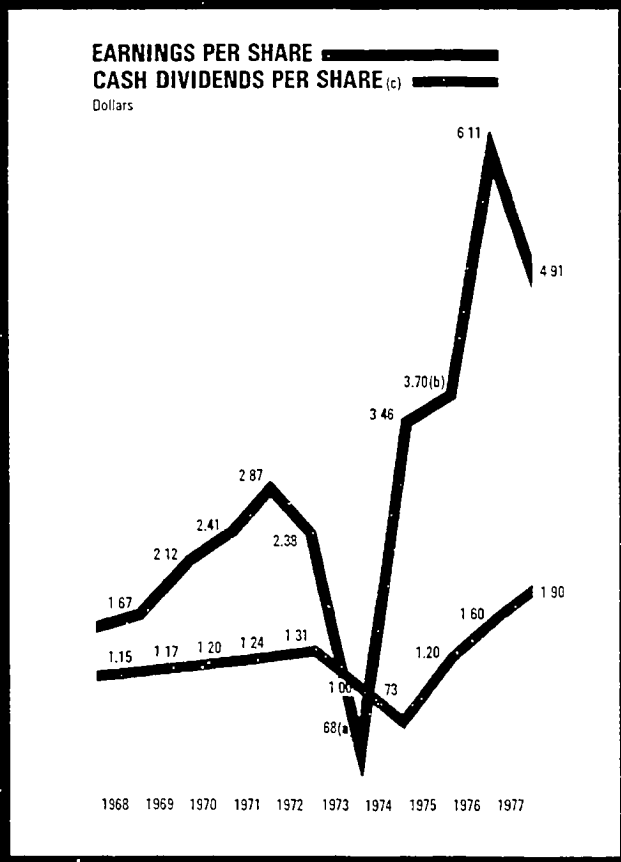
John W Edstrom, Secretary
American Stores Company
One Rollins Plaza
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(302) 571-8733

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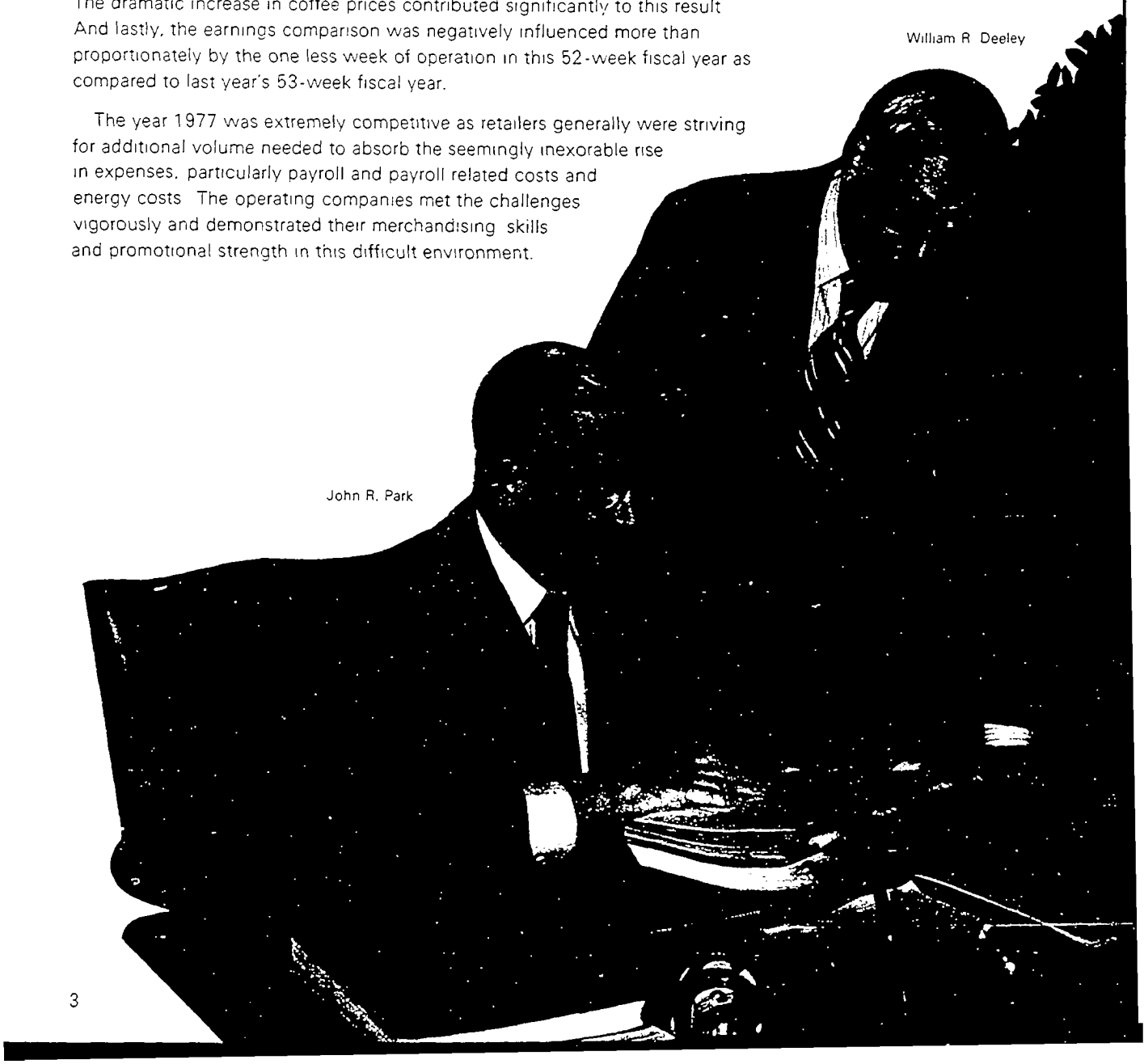
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REPORT TO SHAREHOLDERS:

The fiscal year ended April 2, 1977 set a new record in sales volume. Earnings, although the second best in our history, did not keep pace. Total sales came to $3 465 billion, a gain of 8.03% over the preceding 53-week year Adjusting the prior year to a comparable 52-week basis the gain is 10.1% Earnings were $25 819 million and were $4.91 per common share compared to $6.11 a year ago.

There were three major factors that contributed to this comparative decline in earnings First, a strike of the unionized meat department employees closed 196 Acme Markets units in the greater Philadelphia area for ten days and caused these same stores to operate without a meat department for nine additional days during March This costly occurrence hurt the company both in sales and in earnings. Second, the pronounced rise in food price index during the last months of the fiscal year produced a LIFO inventory valuation reserve considerably greater than the previous year's as noted in the financial statement footnotes The dramatic increase in coffee prices contributed significantly to this result And lastly, the earnings comparison was negatively influenced more than proportionately by the one less week of operation in this 52-week fiscal year as compared to last year's 53-week fiscal year.

The year 1977 was extremely competitive as retailers generally were striving for additional volume needed to absorb the seemingly inexorable rise in expenses, particularly payroll and payroll related costs and energy costs The operating companies met the challenges vigorously and demonstrated their merchandising skills and promotional strength in this difficult environment.



William R Deeley

John R. Park

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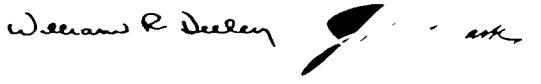
Our plans this year call for a stepped-up new store program accompanied by an ongoing renovation of existing units. The most productive use possible of retail space is receiving much study by our operating management, and improvement in merchandise presentation and customer service is resulting. Today's homemaker is discriminating and perceptive. She is quick to perceive value and has no hesitancy in buying private label brands from a retailer she trusts. We have an experienced staff and good facilities to develop this opportunity. Acme's Ideal brand and Lancaster Brand are well recognized in the East and Alpha Beta's own name label has a similar strength in the West. Shopping habits continue to reflect changing life styles. We must discern and reflect these trends in our retail store layouts and fixturing, as well as in our merchandising emphasis. The growing number of working wives is a good example of this pattern and the importance of convenience items and prepared foods to this market is strikingly evident.

We are pleased that Virginia H. Knauer was elected a Director of the Company on April 28, 1977. Mrs. Knauer has long been involved in the field of consumer affairs. She has held numerous positions in both the federal and state levels of government and is widely respected for her many contributions in the area of consumer representation. Most recently, Mrs. Knauer served as Special Assistant to President Ford for Consumer Affairs until her resignation on January 20, 1977. Her unique combination of knowledge and experience will add to the breadth of our Board membership.

At the May meeting of the Board of Directors, the quarterly dividend payable July 1, 1977 was raised to 52½ cents per share from the 47½ cent rate in effect for the past year. This is the sixth increase in the cash dividend rate since the end of calendar year 1973. Management and the Board continue to recognize the importance of dividends to investors and have attempted to give shareholders appropriate participation in the earnings while still giving consideration to the need for funding our profitable growth.

The current year holds promise, and we look forward to continuing progress. We are encouraged by the increasing breadth and depth of the relatively young management organization of our operating companies. Serving and satisfying customers is the keystone of our business. The reflection of the understanding of this basic principal in the actions and attitudes of the men and women at all levels of responsibility within our Company gives us confidence that we will continue to move forward.

Respectfully submitted,



President

Chairman of the Board
and Chief Executive Officer

Wilmington, Delaware
June 6, 1977

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. . . new stores, products and services

The projected store opening program for fiscal year 1978 is a big one, and plans call for that program to continue at an increased rate for the next several years. The scheduled food store openings for this year are double the 16 that were opened last year. The total of 32 will be about equally divided between Acme and Alpha Beta.

This year most of the added retail food units will be in excess of 30,000 square feet. In those, and in the enlarged stores, increased emphasis will be placed on specialty departments. These could include flower shops, delicatessens, fresh fish departments, specialty cheese shops, expanded produce and frozen food departments, depending on market area factors. Two such departments in Acme stores are shown on this and the following page. The picture at the top of the next page is typical of the flower departments in Alpha Beta stores.

Based on experience gained in operating these larger markets in the last several years, it is apparent that some of these features adding greater merchandise variety can be included in some smaller food stores. This added variety provides increased convenience for the modern shopper who finds time to be one of her most valuable commodities.

Rea and Derick, the Eastern drug subsidiary, plans 11 new stores this year, and 10 Alphy's family restaurants will be added by Alpha Beta.

The entrance to a recently opened Rea and Derick store, pictured on page 8 of this report, is in a downtown mall redevelopment project in Bethlehem, Pennsylvania. The kitchen shown on the same page is at one of the new Alphy's, and typical of those





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planned for the increased number of restaurants to be opened this year.

In addition to the store opening program, the Company has an overall plan for the necessary support facilities to properly serve the customers of these stores As a part of that planning, Rea and Derick will put into operation a major addition to its principal warehouse on July 15 Acme is proceeding with its plans to re-equip a large bakery building in the Philadelphia area. Lease agreements were entered into in mid-April and the bakery will be in operation by 1979 as part of the overall growth and expansion program for the Greater Delaware Valley.

An efficient delivery system is a basic requirement for the retail business. A new dimension is added when art work of the type pictured on page 7 is used on trailers. Alpha Beta received a Fleet Owners Award for this vehicle design.

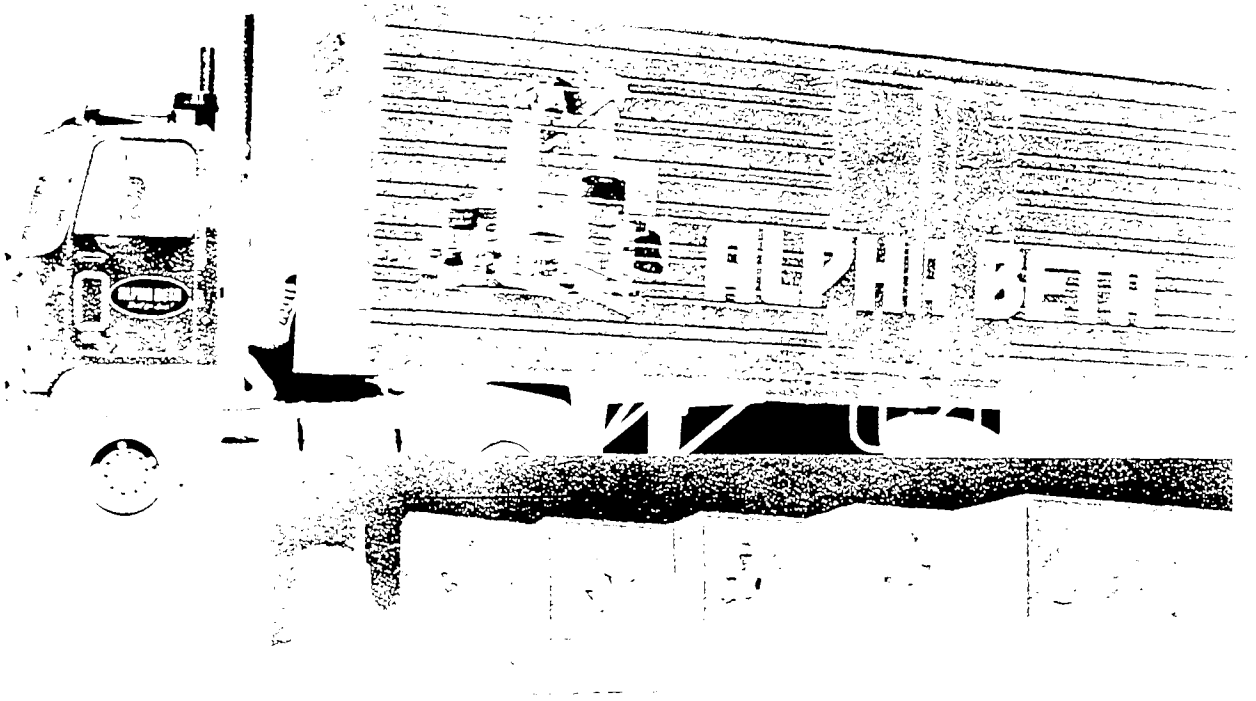


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To assure the proper scheduling of any necessary additions, studies of the entire system of distribution centers continue.

The Company has the financial resources to proceed with the growth plans described above. On July 13, 1976, the Company sold $50,000,000 of sinking fund debentures due July 1, 2001, carrying a coupon rate of 9¾%. The proceeds of this issue have been added to the general funds of the Company and will be used to finance a portion of the Company's capital expenditure programs and to augment working capital in anticipation of continuing higher sales. The Company cancelled the $20,000,000 revolving credit/term loan agreement with two banks as a result of the debenture sale. Capital expenditures for the year ended April 2, 1977, were $37,689,000 compared to $40,632,000 for the preceding year. The principal reason for the higher capital expenditures in fiscal year 1976 was the larger number of new food stores opened compared to fiscal year 1977. Capital expenditures in fiscal year 1977 were primarily for fixtures and equipment for new stores and the remodeling of existing stores.

The Company's working capital position is strong and the ratio of current assets to current liabilities was 1.82 to 1 at April 2, 1977 and 1.58 to 1 at April 3, 1976 providing further evidence of strong financial position.



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ELECTRONIC CASH REGISTERS AND SCANNERS

American Stores companies are among the industry's leaders in the installation of electronic cash registers Currently, almost 300 of the Company's stores are operating with this equipment. All new and remodeled food and drug stores are being equipped with them, also. These registers help answer two major store operating concerns—customer service and the ability to provide that service at a reasonable cost. Sufficient clerks, skilled in the 10-key touch system of checking, on electronic registers, can process customers more efficiently and rapidly through the checkout. Generally, it is the checkout where the customers' perception of wasted time is most prevalent In addition to the benefits to the customers there are features which aid in the efficient operation of the store. Small computers, attached to the register, provide the manager reports which aid in cash handling, bookkeeping and personnel scheduling

The electronic cash register is the precursor of the scanner. The use of scanners offers significant retail industry potential, as merchants continue to seek ways to serve customers better and increase resource productivity The scanner reads a symbol known as the universal product code (UPC) which is printed on the merchandise package. An in-store computer identifies the item and its retail price and then performs the cash register functions with remarkable speed and accuracy. A scan system has been tested and evaluated under store conditions. Other systems will be tried experimentally. Using this experience as a guide, the Company will install scanners as soon as it is practical to do so.

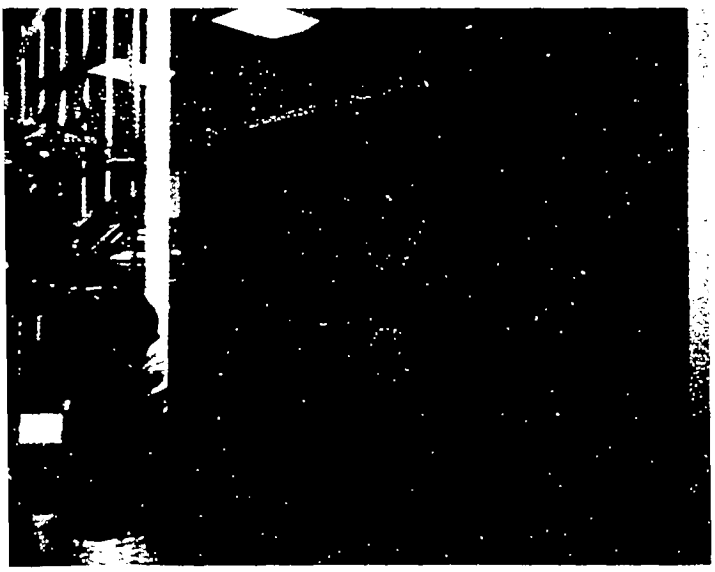
ENERGY CONSERVATION

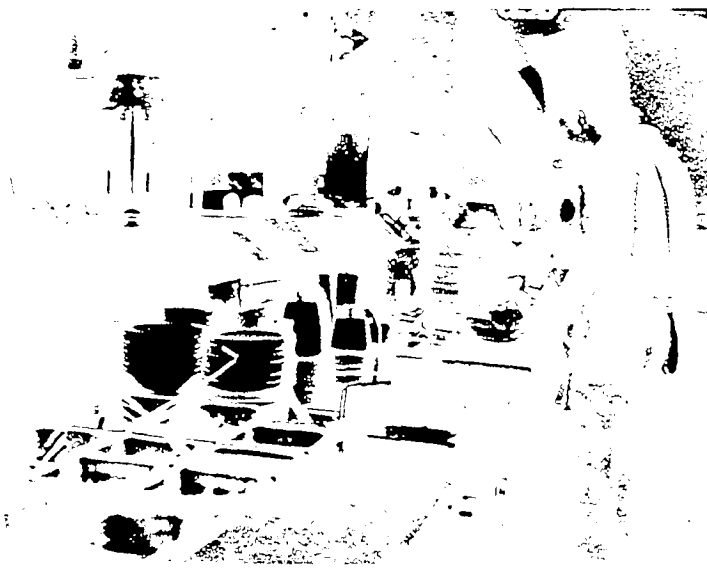
Energy conservation is not new to the American Stores companies. An innovative step was taken by Acme in 1962 Since then, all new Acme stores, and most of the remodeled ones, have been equipped with heat recovery systems. In cold weather these stores are heated by reclaiming heat generated by the operation of the refrigerated cases and other refrigeration equipment The warm air is recirculated through the store

Throughout the Company, a three-prong attack on energy conservation is in motion and showing results First, an awareness program to tell all people throughout the Company what steps are necessary to conserve energy and how each one can help.

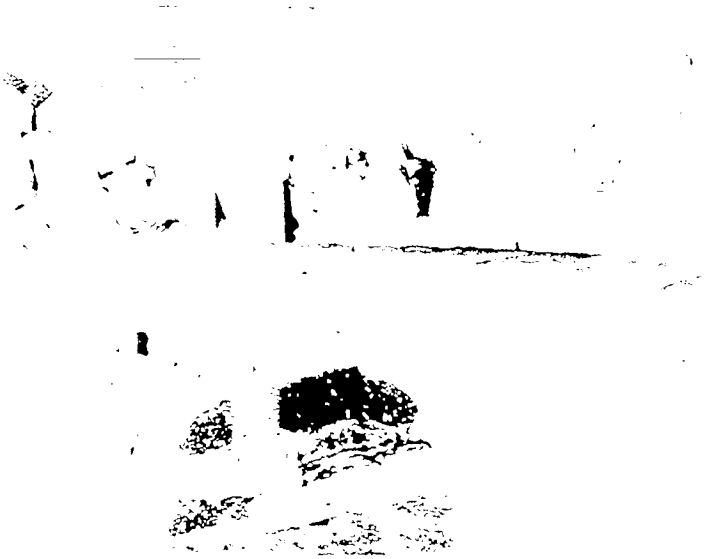
Next, engineering and operation actions were initiated to increase maintenance, reduce store lighting and replace lights, fixtures and equipment with more efficient units. For example, incandescent lights have been replaced with fluorescent which provide four times as much light with the same amount of electricity.

The third and most exciting project is the use of the computer to monitor and control energy usage. During the past year, both Acme and Alpha Beta have tested computerized Power Management Systems in a number of stores and support facilities Results of these tests indicate additional energy savings in the range of 10-20%. Currently, stores are being wired and telephone lines installed to tie them into this system More than three hundred stores should be under control of these computerized networks this year

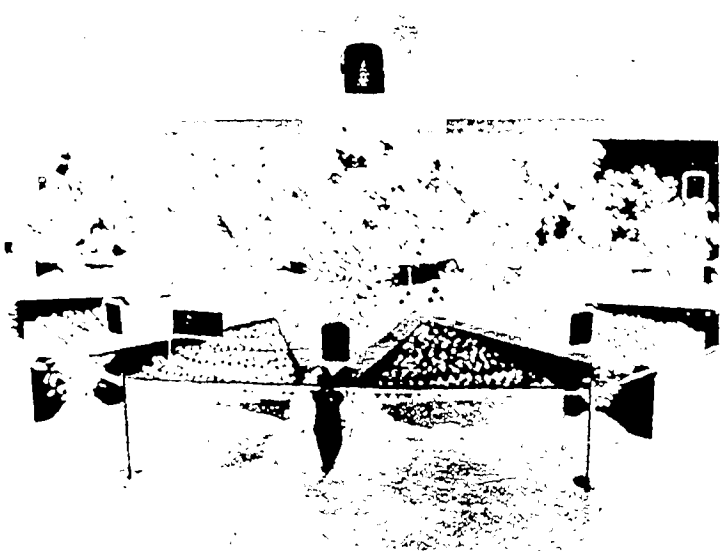




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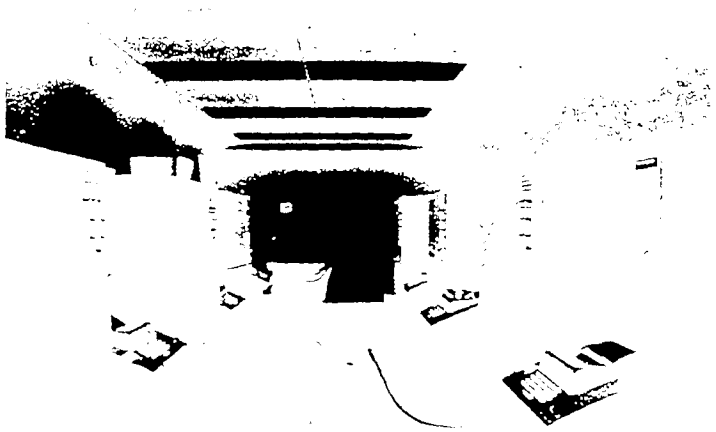


THE WORLD'S BIGGEST SUBMARINE SANDWICH—A roll, baked in the Alpha Beta bakery, measuring 40 feet, 1 inch, was used by Santee, California high school basketball players and cheerleaders to construct the "World's Biggest Submarine Sandwich." Pieces of the sandwich were sold to raise funds for an injured classmate. Going into the super sub were an estimated 155 pounds of cold cuts, 80 pounds of lettuce, 5 gallons of mustard and 5 gallons of mayonnaise.



AWARD WINNING EXHIBIT AT PHILADELPHIA FLOWER SHOW—The display consisted of several varieties of flowering and fruited grapefruit, orange, lime and tangerine trees shipped from Florida. It also included colorfully and attractively arranged loose citrus fruit. Interesting facts about citrus trees and how they came to the United States were provided along with a step-by-step illustration of how fruit reaches Acme Markets.

POWER MANAGEMENT ROOM—This is the Alpha Beta control center. Through programmed information, taken from over two years of testing, the computers talk, via interfaces and telephone circuits, to a control panel in each store, telling it to turn "ON" or "OFF" certain pieces of electrical equipment. Basically, it increases the efficiency of refrigeration and air conditioning units as well as lighting.



ANALYSTS' MEETINGS—Officers of the Company are pictured here at a meeting of the Financial Analysts of Philadelphia. This is one of several such presentations that were made during the last fiscal year. Another is scheduled in June 1977 with East Coast analysts, and one is planned for the West Coast later in the year. The purpose of these meetings is to acquaint the financial community with the American Stores Company story.



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MANAGEMENT'S ANALYSIS OF EARNINGS

The following discussion of material changes in the Company's operations covers fiscal year 1976 compared with 1975 and fiscal year 1977 compared with 1976. A five-year summary of earnings appears on page 11.

The Company's sales increased by 17.3% in fiscal year 1976 compared with 1975 and by 8.0% in fiscal year 1977 compared with 1976. Fiscal 1976 included 53 weeks while fiscal year 1977 was a 52 week year. After adjustment of fiscal 1976 sales to a comparable 52-week basis, the sales increases were 15.1% and 10.1% in 1976 and 1977, respectively. In each of the years the increases came principally from greater volume in existing units. In fiscal year 1976 a portion of the sales increase also came from new stores as 30 new food stores were opened and 14 were closed. During fiscal year 1977, 16 food stores were opened and 43 smaller stores closed. The 1977 sales increase was moderated somewhat by a meat cutters' strike which closed the food stores in the Delaware Valley for ten days and caused these same stores to operate without a meat department for nine additional days during the fourth fiscal quarter.

The cost of merchandise sold increased by 16.4% when comparing fiscal year 1976 with 1975 and by 8.1% when comparing fiscal year 1977 with 1976. The percentage increase in cost of merchandise sold in 1976 was less than the percentage increase in sales due in part to a moderation in the rate of inflation during the year. In fiscal year 1977 merchandise cost rose at a slightly greater rate than sales as a result of the intense price competition in the Company's major supermarket operating areas in the early part of the year and an increase in the rate of inflation for those inventories costed using the LIFO method, particularly coffee, toward the end of the fiscal year. Inventories would have been $19.7 million higher as of April 3, 1976 and $28.7 million higher as of April 2, 1977 if the FIFO and average cost methods of inventory valuation had been used.

Operating and administrative expenses increased by 18.1% in fiscal year 1976 and by 10.7% in fiscal 1977 reflecting the continuing upward pressure on many items of expense, particularly promotional expenses, energy and labor-related expenses and the effects of the strike. Depreciation and amortization increased as additions to plant and equipment required greater charges to expense.

Interest expense increased during 1977 chiefly due to the issuance by the Company in July 1976 of $50 million of 9⅜% sinking fund debentures to be used to fund part of the capital expenditure programs for both stores and support facilities planned for the next several years. As a corollary, non-operating items, principally interest income, rose substantially in 1977 due to the temporary investment of the proceeds of the debenture issue in interest bearing securities pending the above-described use by the Company as well as the continued improved management of working capital.

Due to the factors noted above, net earnings increased by $12.6 million in 1976 before declining by $6.1 million in fiscal 1977. Net earnings for fiscal 1975 were reduced by $8.5 million due to the adoption and use of the LIFO method of valuation for dry grocery inventories in that year.

OPERATING RESULTS BY LINES OF BUSINESS

	Fiscal Year Ended				
	April 2, 1977 52 weeks	April 3, 1976 53 weeks	March 29, 1975 52 weeks	March 30, 1974 52 weeks	March 31, 1973 52 weeks
	(In thousands of dollars)				
Sales					
Supermarkets	**$3,333,824**	3,086,882	2,629,697	2,228,205	1,942,104
Drug and general merchandise stores	**106,841**	98,203	85,696	75,429	68,902
Other	**23,990**	22,163	19,317	16,688	14,294
	$3,464,655	3,207,248	2,734,710	2,320,322	2,025,300
Earnings before income taxes and extraordinary charges					
Supermarkets	**$ 41,826**	55,445	31,126(a)	30,500	926
Drug and general merchandise stores	**5,542**	5,190	4,541	3,453	2,869
Other	**1,571**	1,100	804	625	506
	$ 48,939	61,735	36,471	34,578	4,301

(a) Reflects adoption of LIFO method of valuation for certain inventories

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CONSOLIDATED SUMMARY OF EARNINGS

	Fiscal Year Ended				
	April 2, 1977 52 weeks	April 3, 1976 53 weeks	March 29, 1975 52 weeks(a)	March 30, 1974 52 weeks	March 31, 1973 52 weeks
	(In thousands except shares and per share amounts)				
Sales	**$3,464,655**	3,207,248	2,734,710	2,320,322	2,025,300
Costs and expenses					
Cost of merchandise sold, including warehousing and transportation expenses	**2,765,131**	2,557,185	2,197,610	1,866,172	1,628,448
Operating and administrative expenses	**615,661**	556,054	471,016	394,670	366,834
Depreciation and amortization	**30,460**	28,267	24,639	22,143	21,882
	3,411,252	3,141,506	2,693,265	2,282,985	2,017,164
Operating profit	**53,403**	65,742	41,445	37,337	8,136
Other deductions (income)					
Interest expense	**9,509**	6,504	6,167	5,699	5,172
Non-operating items, net	**(5,045)**	(2,497)	(1,193)	(2,940)	(1,337)
Earnings before income taxes and extraordinary charges	**48,939**	61,735	36,471	34,578	4,301
Federal and state income taxes	**23,120**	29,770	17,150	16,515	700
Earnings before extraordinary charges	**25,819**	31,965	19,321	18,063	3,601
Extraordinary charges	**—**	—	—	—	(2,585)
Net earnings	**$ 25,819**	31,965	19,321	18,063	1,016
Average shares outstanding	**5,255,000**	5,230,407	3,480,273	3,479,858	3,487,320
Per share of common stock based on average number of shares outstanding during fiscal year (b)					
Earnings before extraordinary charges	**$4.91**	6 11	3 70	3 46	68
Extraordinary charges	**—**	—	—	—	(49)
Net earnings	**$4.91**	6.11	3 70	3 46	.19
Cash dividends	**$1.90**	1 60	1.20	73	1.00

(a) Reflects adoption of LIFO method of valuation for certain inventories which reduced net earnings $8,521,000 or $1 63 per share
(b) Per share figures have been adjusted, where appropriate, for the three-for-two stock split effective July 1, 1975

PEAT, MARWICK, MITCHELL & Co.
CERTIFIED PUBLIC ACCOUNTANTS

The Shareholders and Board of Directors
American Stores Company

1500 WALNUT STREET
PHILADELPHIA, PA. 19102

We have examined the consolidated balance sheets of American Stores Company and subsidiaries as of April 2, 1977 and April 3, 1976 and the related consolidated statements of earnings and changes in financial position for the fiscal years then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned consolidated financial statements present fairly the financial position of American Stores Company and subsidiaries at April 2, 1977 and April 3, 1976 and the results of their operations and changes in their financial position for the fiscal years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

May 16, 1977

Peat, Marwick, Mitchell & Co.

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AMERICAN STORES COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EARNINGS

Fiscal years ended April 2, 1977 and April 3, 1976

CURRENT EARNINGS	1977 (52 weeks)	1976 (53 weeks)
Sales	**$3,464,655,000**	3,207,248,000
Cost of sales and operating expenses:		
Cost of merchandise sold, including warehousing and transportation expenses	**2,765,131,000**	2,557,185,000
Wages, rents, advertising, administrative and other operating expenses	**615,661,000**	556,054,000
Depreciation and amortization	**30,460,000**	28,267,000
	3,411,252,000	3,141,506,000
Operating profit	**53,403,000**	65,742,000
Other deductions (income):		
Interest on long-term debt	**8,806,000**	5,709,000
Other interest expense	**703,000**	795,000
Non-operating items, net (principally interest income)	**(5,045,000)**	(2,497,000)
	4,464,000	4,007,000
Earnings before income taxes	**48,939,000**	61,735,000
Federal and state income taxes (note 4)	**23,120,000**	29,770,000
Net earnings	**$ 25,819,000**	31,965,000
Net earnings per share of common stock	**$ 4.91**	6.11
EARNINGS RETAINED FOR USE IN THE BUSINESS		
Balance at beginning of year	**$ 101,634,000**	78,042,000
Net earnings for the year	**25,819,000**	31,965,000
	127,453,000	110,007,000
Deduct cash dividends—$1.90 a share in 1977 and $1.60 a share in 1976	**9,989,000**	8,373,000
Balance at end of year	**$ 117,464,000**	101,634,000

See accompanying notes to financial statements

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CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

Fiscal years ended April 2, 1977 and April 3, 1976

SOURCE:	1977 (52 weeks)	1976 (53 weeks)
Net earnings	$25,819,000	31,965,000
Expenditures charged against earnings not involving the current expenditure of funds		
Depreciation and amortization	30,460,000	28,267,000
Deferred income taxes	4,916,000	2,403,000
Other	190,000	127,000
Total funds provided from operations	61,385,000	62,762,000
Long-term borrowing	53,614,000	11,739,000
Disposals of properties	3,031,000	2,227,000
Proceeds from sales of common stock pursuant to exercise of options	372,000	298,000
Total source of funds	118,402,000	77,026,000
DISPOSITION:		
Expended for property, plant and equipment	37,689,000	40,632,000
Reduction of long-term debt	10,389,000	9,286,000
Cash dividends	9,989,000	8,373,000
Investments and deferred charges (reduction)	2,418,000	(2,548,000)
Miscellaneous, net	38,000	308,000
Total disposition of funds	60,523,000	56,051,000
Increase in working capital	$57,879,000	20,975,000
CHANGES IN WORKING CAPITAL:		
Increase (decrease) in current assets:		
Cash and marketable securities	$45,292,000	20,975,000
Receivables	4,613,000	(103,000)
Inventories	19,124,000	16,124,000
Prepaid expenses	2,086,000	4,928,000
Properties to be developed and sold within one year	(1,030,000)	(2,525,000)
	70,085,000	39,399,000
Increase (decrease) in current liabilities:		
Current instalments of long-term debt	426,000	1,023,000
Accounts payable	28,807,000	(10,776,000)
Accrued expenses and taxes	(14,529,000)	28,566,000
Construction and other loans on properties to be sold	(2,498,000)	(389,000)
	12,206,000	18,424,000
Increase in working capital	$57,879,000	20,975,000

See accompanying notes to financial statements.

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AMERICAN STORES COMPANY AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

April 2, 1977 and April 3, 1976

ASSETS	1977	1976
Current assets:		
Cash	**$ 17,645,000**	9,353,000
Short-term marketable securities, at approximate market	**74,046,000**	37,046,000
Receivables	**15,494,000**	10,881,000
Inventories, at lower of cost (last-in, first-out and other methods) or market (note 2)	**251,901,000**	232,777,000
Prepaid expenses	**13,889,000**	11,803,000
Properties to be developed and sold within one year	**7,255,000**	8,285,000
Total current assets	**380,230,000**	310,145,000
Investments, at cost or less	**4,917,000**	3,430,000
Property, plant and equipment, at cost (note 3):		
Land	**17,482,000**	17,471,000
Buildings	**76,161,000**	75,734,000
Machinery, equipment and fixtures	**221,461,000**	210,587,000
Leasehold costs and improvements	**34,987,000**	30,693,000
	350,091,000	334,485,000
Less accumulated depreciation and amortization	**146,852,000**	135,444,000
Net property, plant and equipment	**203,239,000**	199,041,000
Deferred charges, etc.	**1,830,000**	1,089,000
	$590,216,000	513,705,000

See accompanying notes to financial statements.

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LIABILITIES AND SHAREHOLDERS' EQUITY	1977	1976
Current liabilities:		
Current instalments of long-term debt (note 3)	$ **4,971,000**	4,545,000
Accounts payable	**136,517,000**	107,710,000
Accrued expenses	**62,449,000**	56,027,000
Federal and state income taxes (note 4)	**336,000**	21,287,000
Construction and other loans on properties to be sold	**4,172,000**	6,670,000
Total current liabilities	**208,445,000**	196,239,000
Long-term debt, excluding current instalments (note 3)	**104,320,000**	61,095,000
Deferred income taxes (note 4)	**21,664,000**	16,748,000
Other liabilities	**1,245,000**	1,283,000
Shareholders' equity:		
Preferred stock of $1 par value. Authorized 1,000,000 shares, issued none	—	—
Common stock of $1 par value. Authorized 10,000,000 shares, issued 5,305,004 shares in 1977 and 5,282,154 shares in 1976 (note 5)	**5,305,000**	5,282,000
Capital in excess of par value of common stock (note 5)	**132,792,000**	132,443,000
Earnings retained for use in the business (note 3)	**117,464,000**	101,634,000
	255,561,000	239,359,000
Less 41,064 shares common treasury stock, at cost	**1,019,000**	1,019,000
Total shareholders' equity	**254,542,000**	238,340,000
Lease commitments and litigation (notes 6 and 8)		
	$590,216,000	513,705,000

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NOTES TO FINANCIAL STATEMENTS

(1) Summary of Significant Accounting Policies

Definition of Fiscal Year

The company's fiscal year ends on the Saturday nearest to March 31. The resultant 52-week fiscal year is shorter than a calendar year. Accordingly, the fiscal year is lengthened to 53 weeks periodically to reposition the year end near March 31. Fiscal year 1977, a 52-week year, ended April 2, 1977, while fiscal year 1976, a 53-week year, ended April 3, 1976.

Basis of Consolidation

The consolidated financial statements include the accounts of the company and all subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

Inventories

Inventories are stated at the lower of cost or market. The last-in, first-out (LIFO) method is used to determine the cost of certain categories of grocery inventories. Cost of the balance of grocery inventories and all other inventories is computed by either the first-in, first-out (FIFO) or average cost methods.

Depreciation Policy

Depreciation and amortization charged to earnings for financial statement purposes are generally computed using the straight-line method applied to individual property items. For income tax purposes, depreciation is computed by accelerated methods applied to composite groupings of assets.

Maintenance, repairs, renewals and minor betterments are charged to earnings. Where betterments are significant in amount and tend to increase operating efficiency or capacity, they are capitalized and depreciated.

Plant and equipment which has become fully depreciated or fully amortized is charged off against the related accumulated depreciation or amortization.

Costs of Opening and Closing Stores

The costs of opening new stores are charged against earnings in the year in which they are incurred. When operations are discontinued and a store is closed, the remaining investment in fixtures and improvements, net of expected salvage, is charged against earnings and provision made for the remaining liability under the lease, net of expected sublease recovery.

Income Taxes

The company provides deferred income taxes or credits where there are timing differences in recording income and expenses for financial reporting and tax purposes. These timing differences relate primarily to accelerated depreciation and reserves not currently tax deductible.

The company reduces its current income tax provision for investment tax credits in the year in which the credits arise.

Pension Costs

Pension costs are actuarially computed and include amortization of prior service cost over periods ranging to forty years. The company's policy is to fund pension costs accrued.

Net Earnings Per Share

Net earnings per share of common stock are based on the average number of common shares outstanding during the year. Common share equivalents in the form of stock options are excluded from the calculation since they have no material dilutive effect on per share figures.

(2) LIFO Inventories

The dry grocery inventories located in both stores and warehouses of the company's food store subsidiaries, amounting to approximately half of total inventories, are valued at last-in, first-out (LIFO) cost. Such inventories amounted to $121,166,000 at April 2, 1977 and $113,175,000 at April 3, 1976. If the first-in, first-out (FIFO) and average cost methods had been used, inventories would have been $28,737,000 higher at April 2, 1977 and $19,711,000 higher at April 3, 1976.

(3) Indebtedness

A summary of long-term debt at April 2, 1977 and April 3, 1976 is shown below:

	1977	1976
9¾% sinking fund debentures due July 1, 2001	$50,000,000	–
9⅞% sinking fund debentures due August 1, 1990	21,880,000	23,075,000
Notes payable due June 30, 1980	12,500,000	14,500,000
Mortgage loans payable	18,321,000	21,227,000
Industrial development revenue bonds due April 1, 1995	3,700,000	3,700,000
Purchase agreement	2,890,000	3,138,000
	109,291,000	65,640,000
Current instalments	4,971,000	4,545,000
Long-term	$104,320,000	61,095,000

Sinking fund payments, sufficient to retire $2,500,000 principal amount of the 9¾% sinking fund debentures, are due annually beginning July 1, 1982. Annual payments of $1,560,000 are made to the sinking fund for the 9⅞% debentures.

The notes payable due June 30, 1980 bear interest at prime rate plus ½% (6¾% at April 2, 1977), with a

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maximum average rate of 7½% to maturity. The notes are payable in quarterly instalments of $500,000 until March 31, 1980 with the remainder of $6,500,000 payable at maturity.

The various mortgage loans are payable in monthly instalments of approximately $235,000 through February 1, 1979 and lesser amounts thereafter through December 1, 2004 (applied first to interest and then to principal) and are secured by property, plant and equipment with a carrying value of $22,677,000. The loans bear interest at various rates, ranging from 6% to 10% (average 9⅜%).

Industrial development revenue bonds (average interest rate 7.4%) were issued to finance part of the cost of a new food processing plant of a subsidiary leased from the municipality in which it is located. The annual payments made by the subsidiary are in amounts sufficient to pay principal and interest expense on the bonds. Repayments of this debt are scheduled to commence on April 1, 1980 ($500,000) and range in amount from $200,000 in 1984 to $1,500,000 in 1995. The cost of the plant and related facilities have been included in property, plant and equipment as if they were owned by the company.

The purchase agreement relates to a distribution center property and requires equal semi-annual payments through 1986 applied first to interest at 4¾% and the remainder to principal.

The aggregate amounts of long-term debt maturing in each of the five fiscal years subsequent to April 2, 1977 are: 1978—$4,971,000; 1979—$5,097,000; 1980—$5,200,000; 1981—$10,310,000 and 1982—$3,727,000.

There were no short-term borrowings during fiscal years 1976 and 1977 except the construction and other loans on properties to be sold.

The various loan agreements impose certain restrictions with respect to maintenance of working capital, amount of liabilities, payment of dividends and purchase of capital shares. Under the most restrictive covenant, earnings retained for use in the business in the approximate amount of $39,786,000 at April 2, 1977, were free of restriction.

(4) Income Taxes

Federal and state income taxes charged to earnings are summarized below:

	1977	1976
Current		
Federal (before investment credits)	$17,683,000	24,967,000
Investment credits	(2,382,000)	(2,924,000)
State	2,903,000	5,324,000
Deferred		
Federal	4,189,000	2,047,000
State	727,000	356,000
	$23,120,000	29,770,000

Deferred taxes for both 1977 and 1976 relate principally to the effects of accelerated depreciation.

The effective income tax rate differed from the statutory Federal income tax rate of 48% as shown below:

	1977	1976
Computed "expected" tax rate	48.0%	48.0%
State income taxes, net of Federal income tax benefit	3.9	4.8
Investment credits	(4.9)	(4.7)
Other, net	0.2	0.1
	47.2%	48.2%

The Federal income tax returns of the company for fiscal years 1969 and 1970 have been examined by the Internal Revenue Service, and all issues have been settled except one relating to imposition of a minor deficiency which the company is contesting. Returns for fiscal years 1971 through 1974 are in various stages of examination and post-examination review with the Service. Management believes that any adjustments arising from the final tax settlements for these years will not have a material effect on the consolidated earnings or consolidated financial position of the company.

(5) Common Stock and Capital in Excess of Par Value of Common Stock

Changes in common stock and capital in excess of par value of common stock are as follows:

	Common stock Shares	Common stock Amount	Capital in excess of par value of common stock
Balance at March 29, 1975	3,508,561	$3,509,000	133,918,000
Three-for-two stock split	1,755,783	1,756,000	(1,756,000)
Sale of stock under stock option plan	17,810	17,000	281,000
Balance at April 3, 1976	5,282,154	5,282,000	132,443,000
Sale of stock under stock option plan	22,850	23,000	349,000
Balance at April 2, 1977	5,305,004	$5,305,000	132,792,000

Under the company's stock option plans approved by the shareholders in 1964 and 1974, there were outstanding at April 2, 1977 options granted to officers and key management employees to purchase 187,736 shares of common stock at prices ranging from $14.92 to $25.88, such prices being equal to market value on the respective dates of granting. The options are exercisable on a cumulative basis over a period of five years or less and expire on or before June 19, 1980. The changes in options outstanding during the two years are summarized as follows:

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	1977	1976
Shares under option at beginning of year	212,460	102,743
Additions (deductions)		
Options granted	—	81,600
Options exercised	(22,850)	(17,810)
Options expired or canceled	(1,874)	(4,338)
Options increased by reason of stock split	—	50,265
Shares under option at end of year	187,736	212,460
Average option price per share	$20.76	$20.25

Under the 1974 option plan at April 2, 1977, an additional 112,400 shares common stock were reserved for future option grants

(6) Lease Commitments

At April 2, 1977, the company and subsidiaries were lessees under leases covering retail locations and certain distribution center properties The company conducts the major part of its operations from leased premises and the initial lease terms generally range from 15 to 20 years. Most of the leases contain renewal options which give the company the right to extend the lease for varying additional periods, often at reduced rentals The company has classified its lease obligations as either non-capitalized financing leases or other leases in accordance with the requirements of the Securities and Exchange Commission. Rental expense for fiscal years 1977 and 1976 was as follows

	1977	1976
Financing leases		
Minimum rentals	$23,321,000	21,671,000
Rentals based on sales	2,868,000	1,612,000
Sublease rentals	(661,000)	(707,000)
	25,528,000	22,576,000
Other leases		
Minimum rentals	15,397,000	15,043,000
Rentals based on sales	1,440,000	1,248,000
Sublease rentals	(1,013,000)	(1,006,000)
	15,824,000	15,285,000
	$41,352,000	37,861,000

Aggregate future minimum commitments (excluding taxes, insurance and maintenance expenses where payable by the company) are approximately as follows for the fiscal years indicated:

Years	Net, all leases	Financing leases	Other leases	Sublease rental income: Financing leases	Sublease rental income: Other leases
		(000's omitted)			
1978	$ 37,302	24,391	14,404	(606)	(887)
1979	35,446	24,193	12,511	(549)	(709)
1980	33,224	23,827	10,444	(498)	(549)
1981	31,379	23,418	8,747	(470)	(316)
1982	29,145	22,836	6,851	(368)	(174)
1983-1987	119,257	102,196	18,643	(1,265)	(317)
1988-1992	92,515	83,270	9,980	(654)	(81)
1993-1997	42,406	36,245	6,390	(229)	—
Thereafter	5,150	5,218	—	(68)	—
	$425,824	345,594	87,970	(4,707)	(3,033)

The present value of the minimum lease commitments for financing leases was $192,600,000 at April 2, 1977 and $171,000,000 at April 3, 1976 based on calculations using interest rates ranging from 4¼% to 10¼% The weighted average interest rates were 7 8% for fiscal 1977 and 7 5% for 1976 If all of the above noncapitalized financing leases were capitalized, the related property rights amortized on a straight-line basis and interest cost accrued on the basis of the outstanding lease liability, net earnings for fiscal years 1977 and 1976 would have been reduced $1,727,000 and $1,556,000, respectively. The amounts of amortization and interest cost included in the calculations were the following

	1977	1976
Amortization	$12,337,000	11,885,000
Interest cost	14,609,000	12,928,000

The provisions of Statement of Financial Accounting Standards No 13 of the Financial Accounting Standards Board published in November 1976 and made effective for leasing transactions entered into on or after January 1, 1977 will govern future accounting for leases The Statement provides that leasing transactions which meet specified criteria will be classified as capital leases in the balance sheet As to leases effective prior to January 1, 1977, the requirements of Statement of Financial Accounting Standards No 13 must be applied retroactively prior to the end of a transition period which extends to fiscal year 1982 Generally, leases presently identified as financing leases pursuant to the requirements of the Securities and Exchange Commission will be reported as leased property under capital leases, the capital lease obligations shown and amortization and interest expense charged in the earnings statement in place of rent The effect of such treatment on the financial statements has not been ascertained, but it is expected to approximate the amounts disclosed for financing leases in the preceding paragraph of this footnote relating to lease commitments

(7) Pension Plans

Substantially all employees of the company and its subsidiaries are covered by pension plans funded currently by payments to plan trustees or insurers. Employees who are members of bargaining units are covered by union-negotiated pension plans to which

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the company makes specified contributions based on hours worked. For other eligible employees, the company provides pension benefits through group annuity contracts with a life insurance company.

At the January 1, 1977 actuarial valuation date, the computed value of vested benefits for the principal plans which are funded through group annuity contracts exceeded the applicable plan assets by $10,186,000 and unfunded past service cost amounted to approximately $14,693,000. Amendments to the plans during 1976 necessitated by the Employee Retirement Income Security Act increased pension expense for the year by $661,000.

The total charge to earnings for all plans for the year ended April 2, 1977 was approximately $30,085,000 compared with $24,115,000 for the preceding fiscal year.

(8) Litigation

The company has been named a defendant in ten civil cases brought by certain alleged cattle producers and feeders, along with numerous other retail food companies, the National Association of Food Chains and the National Provisioner, Inc. These cases, brought in Federal District Courts in Iowa, Texas, Nevada, Utah, California and Washington, D.C., involve various combinations of the above defendants, and some purport to be class actions. Generally, the cases seek treble damages in unspecified amounts, as well as injunctive relief restraining the alleged unlawful practices, plus costs and attorneys' fees. In general, the allegations contained in the complaints involve agreements among the defendants to fix prices paid by retail chains to meat packers, to charge high prices for retail sales of beef to consumers, to allocate territories among certain retail chains, to eliminate price competition for beef, and to boycott packers, feed lots and producers in order to obtain lower prices for beef. The cases have been consolidated in Dallas, Texas (MDL Docket #248) for pre-trial proceedings.

Since the proceedings have not progressed beyond the early stages of discovery, management is unable to predict the ultimate outcome. However, management believes that no basis exists for the allegations made against the company in these complaints and that it is unlikely that these law suits will materially affect the company's consolidated earnings and financial position.

(9) Quarterly Financial Data (Unaudited)

The following quarterly financial data (in thousands of dollars except per share amounts) is presented for the two most recent fiscal years. The quarters shown each comprised 13 weeks except the quarter ended April 3, 1976, which comprised 14 weeks.

The independent auditors made a limited review of the fiscal year 1977 quarterly data in accordance with standards established by the American Institute of Certified Public Accountants, but no such review was made of the fiscal year 1976 quarterly data. Since the independent auditors did not audit the quarterly data for either year, they express no opinion on such data.

Quarter ended	Sales	Cost of merchandise sold(a)	Net earnings	Per share
Fiscal year 1976				
June 28, 1975	$744,103	$ 596,898	$ 6,752	$1.29
September 27, 1975	763,995	608,500	7,105	1.36
December 27, 1975	807,150	644,968	6,591	1.26
April 3, 1976	892,[illegible]0	706,819	11,517	2.20
Fiscal year 1977.				
July 3, 1976	$857,148	$687,878	$ 6,971	$1.33
October 2, 1976	843,440	674,991	5,286	1.01
January 1, 1977	885,407	707,560	7,011	1.33
April 2, 1977	878,660	694,702	6,551	1.24

(a) Including warehousing and transportation expenses.

(10) Replacement Cost Data (Unaudited)

A Securities and Exchange Commission rule adopted in 1976 requires disclosure, in Annual Report—Form 10-K to the Commission, of the estimated current replacement cost of inventories and plant assets at April 2, 1977, together with estimated cost of merchandise sold and depreciation for the fiscal year then ended on the basis of current replacement cost. It is anticipated that such information will provide needed insights into current costs of operations and inflation which the traditional historical cost financial statements do not disclose.

Amounts charged as depreciation and cost of merchandise sold in the accounts represent an allocation of historical cost and not cost to replace. Replacement of equipment and facilities of equivalent productive capacity, and to a limited extent inventories, requires a significantly greater expenditure of funds than the original outlay due to the cumulative effects of inflation. As a result, there has been a pressure on working capital over recent years. The company has been able to offset some of the impact of inflation through improved facility utilization, emphasis on expense controls and, to a certain extent, price increases. More information on replacement cost will be included in Annual Report—Form 10-K filed with the Securities and Exchange Commission.

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AMERICAN STORES COMPANY • DIRECTORS AND OFFICERS

Directors

William R. Deeley
President
American Stores Company

Edward J. Dwyer
Former Chairman of the Board
ESB Incorporated
(Manufacturer of Batteries)

Thomas W. Field, Jr.
President and Chief Executive Officer
Alpha Beta Company

Williford Gragg
Chairman of the Board and President
United States Fidelity and Guaranty Company
(Insurance and Suretyship)

Richard E. Heckert
Senior Vice President
E. I. duPont de Nemours & Company
(Manufacturer of Chemicals and Related Products)

James V. Jones
Executive Vice President
Armstrong Cork Company
(Manufacturer of Interior Furnishings and Specialty Products)

Virginia H. Knauer
President
Virginia Knauer & Associates, Inc.
(Consumer Consultants)

Peter F. McGoldrick
President and Chief Executive Officer
Acme Markets, Inc.

Thomas T. Oyler
Executive Vice President of the Company and American Stores Group Services, Inc.

John R. Park
Chairman of the Board and Chief Executive Officer of the Company, President and Chief Executive Officer, American Stores Group Services, Inc.

Hubert C. Perry
Regional Vice President (Retired)
Bank of America (Banking)

James K. Robinson, Jr.
Senior Vice President
American Stores Group Services, Inc.

Isadore M. Scott
Chairman of the Board
Tosco Corporation
(Diversified Energy Company)

Officers

John R. Park
Chairman of the Board and Chief Executive Officer

William R. Deeley
President

Thomas T. Oyler
Executive Vice President

Thomas W. Field, Jr.
Vice President

Peter F. McGoldrick
Vice President

Thomas H. Sunday
Vice President

John W. Edstrom
Secretary

John G. C. Fuller
Treasurer

Doris M. Ulrich
Assistant Secretary

CORPORATE OFFICERS OF THE PRINCIPAL SERVICE SUBSIDIARY AND OPERATING COMPANIES

AMERICAN STORES GROUP SERVICES, INC.

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President and Chief Executive Officer

Thomas T. Oyler
Executive Vice President

James K. Robinson, Jr.
Senior Vice President
Real Estate

J. Kennedy W. Barclay
Vice President
Engineering

C. Herbert Fry
Vice President and Controller

John G. C. Fuller
Vice President—Finance and Treasurer

Thomas H. Sunday
Vice President—Law

Rowland G. Weber
Vice President—Insurance and Benefit Plans

John W. Edstrom
Secretary and Counsel

Jacqueline Paulsen
Assistant Treasurer

ACME MARKETS, INC.

President and Chief Executive Officer	Peter F. McGoldrick
Vice Presidents	Ralph S. Bromer, Jr. William A. Dreibelbis E. Paul Hasler Donald H. Kohler Robert W. McCahan James A. Trolier
Vice President and Secretary	Francis J. Raucci, Jr.
Treasurer	Robert W. Simpson
Controller	Richard G. Dunlop
Assistant Secretaries	John M. Doerr John T. Hartigan
Assistant Treasurers	Robert B. Jones Jacqueline Paulsen

ALPHA BETA COMPANY

President and Chief Executive Officer	Thomas W. Field, Jr.
Executive Vice President	Thomas W. King
Senior Vice President	Durward W. Black
Vice Presidents	Frederic S. Cantrell Joseph E. Davis Edwin R. Markson
Secretary	Ruth H. Thomas
Assistant Secretary	Robert O. Kuchenbecker

HARDEE NORTHERN INC.

President and Chief Executive Officer	A. Balfour Brehman, Jr.
Controller	Donald L. McFarland

REA AND DERICK, INCORPORATED

President and Chief Executive Officer	Paul A. Morelock
Vice Presidents	Clarence J. Everett John L. Hurst, Jr. Lewis M. Swinger
Secretary and Controller	William Fuller
Assistant Secretary	Joseph W. Bloom

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William R. Deeley John R. Park Charles Hoffman, Acme Markets, Inc.



Thomas T. Oyler Peter F. McGoldrick



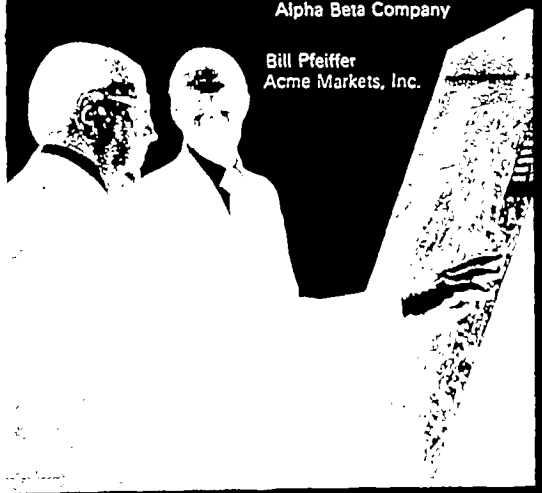
James K. Robinson, Jr. Darryl Allen, Alpha Beta Company

During the last fiscal year, two meetings of the American Stores Company Board of Directors were held at operating company locations, one at Wilkes-Barre, Pennsylvania, and the other at La Habra, California.

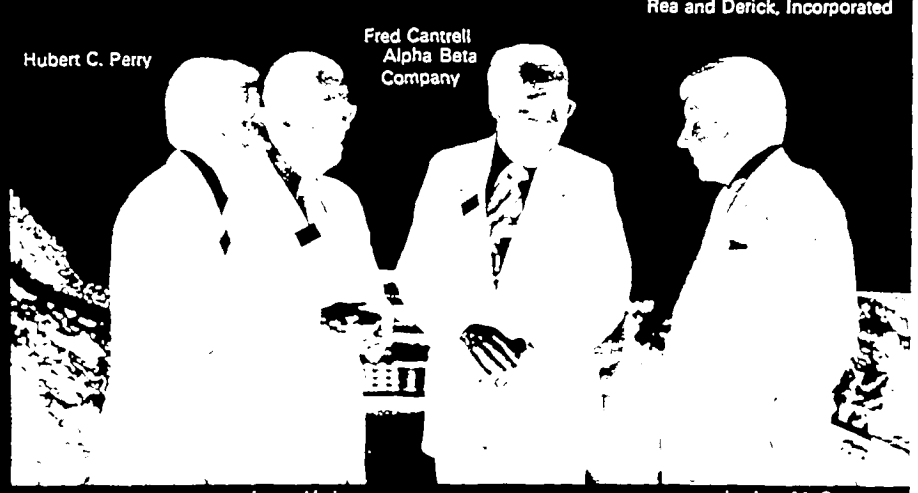
All but one of the pictures shown on this page are scenes from those visits. The exception, top left corner, was taken at the opening of an Acme store in Philadelphia.



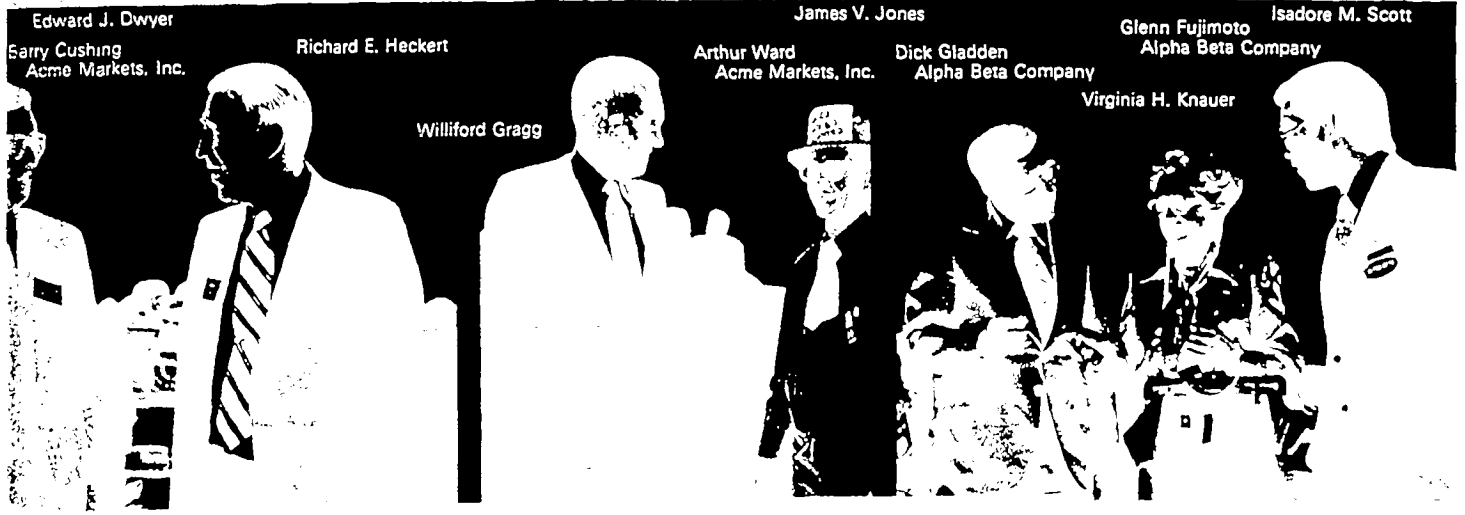
Thomas W. Field, Jr. Paul Morelock, Rea and Derick, Incorporated



Bill Pfeiffer, Acme Markets, Inc.



Hubert C. Perry Fred Cantrell, Alpha Beta Company



Edward J. Dwyer James V. Jones Isadore M. Scott

Barry Cushing, Acme Markets, Inc. Richard E. Heckert Arthur Ward, Acme Markets, Inc. Dick Gladden, Alpha Beta Company Glenn Fujimoto, Alpha Beta Company

Williford Gragg Virginia H. Knauer

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